

To: JP Sevilla[jsevilla@sasmgt.com]; Matt DiOrio[mdiorio@sasmgt.com]
Cc: Alli Devins[ADevins@beechercarlson.com]
Sent: Wed 6/6/2018 2:23:00 PM Coordinated Universal Time
Subject: RE: Sentinel

JP, we don't typically have amendments for premium changes unless there was either a mistake made or change in exposure.

Having said that, what we have here is an unusual circumstance in that assets other than cash were received for premium. Its almost always that cash is received, so its cut and dry what that value is.

I revisited the policy and it specifically states that if premium can be paid in a form other than cash (assuming its acceptable to insurer) and that the value of this shall be equal to or greater than the premium. Therefore, I think its acceptable to amend the policy premium to specifically state premium received in the form of cash as \$XX and fair value securities of \$YY.

From: JP Sevilla [mailto:jsevilla@sasmgt.com]
Sent: Wednesday, June 06, 2018 9:49 AM
To: Tom Adamczak; Matt DiOrio
Cc: Alli Devins
Subject: RE: Sentinel

Fair enough re: term.

Have any of your other clients effected an amendment increasing premium this way? We will consult counsel at Solomon Harris, but it would be helpful to know, anecdotally at least, whether this is done with any regularity.

Thank you.

From: Tom Adamczak [mailto:tadamczak@beechercarlson.com]
Sent: Wednesday, June 6, 2018 8:46 AM
To: JP Sevilla <jsevilla@sasmgt.com>; Matt DiOrio <mdiorio@sasmgt.com>
Cc: Alli Devins <ADevins@beechercarlson.com>
Subject: RE: Sentinel

Yes, they are comfortable with this.

So originally (at the time the ATE policy was written) the trial was to be scheduled in mid-2018 with everything wrapping up (including appeal) in 2019. This fits into the 24 month policy term. Now if the projection is to go through end of 2019/early 2020, I don't think we can change policy term. This would cause more concern with whether it is an arm-length transaction. I think its important to stick with the original estimate at policy inception.

From: JP Sevilla [mailto:jsevilla@sasmgt.com]
Sent: Wednesday, June 06, 2018 9:21 AM
To: Tom Adamczak; Matt DiOrio
Cc: Alli Devins
Subject: RE: Sentinel

Can you tentatively confirm that the auditor will be comfortable with this? We will need to chase down some legal issues.

As for term, two years was proposed because the trial setting is scheduled for mid-2018, and extending the term through 2019 would allow time for an appeal. However, it's possible that if the premium is changed upwards, the term could be

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extended to perhaps 30 months – would that be problematic?

From: Tom Adamczak [<mailto:tadamczak@beechercarlson.com>]
Sent: Wednesday, June 6, 2018 7:55 AM
To: JP Sevilla <jsevilla@sasmgt.com>; Matt DiOrio <mdiorio@sasmgt.com>
Cc: Alli Devins <ADevins@beechercarlson.com>
Subject: RE: Sentinel

JP, cash is still fine under the proposed option. Sentinel's maintained cash is required to at least be equal to 100% of reserves, which are not affected by this option. Additionally, CIMA's surplus requirements are that Sentinel must maintain surplus in excess of 125% of the greater of 1) Minimum Capital Requirement (\$200k), or 2) Prescribed Capital Requirement (15% of earned premium). Because Earned premium would increase, there would be a great minimum surplus under this option. At 12/31/17 this would only increase the surplus requirement by about \$600k - not a concern for Sentinel as the surplus would be about \$32m, or \$30m in excess of the requirement.

Let me know if this makes or if you want to discuss.

Did you have any information you could provide on how 2 years was determined to be an appropriate risk period for earning the premium?

Thanks,
Tom

From: JP Sevilla [<mailto:jsevilla@sasmgt.com>]
Sent: Tuesday, June 05, 2018 4:28 PM
To: Tom Adamczak; Matt DiOrio
Cc: Alli Devins
Subject: RE: Sentinel

How much cash will Sentinel have to hold per CIMA if the premium is \$40m? Assuming the term is two years.

From: Tom Adamczak [<mailto:tadamczak@beechercarlson.com>]
Sent: Tuesday, June 5, 2018 3:24 PM
To: JP Sevilla <jsevilla@sasmgt.com>; Matt DiOrio <mdiorio@sasmgt.com>
Cc: Alli Devins <ADevins@beechercarlson.com>
Subject: Sentinel
Importance: High

JP and Matt,

I just spoke with Lisa (Sr. Mgr at Crowe) regarding the Sentinel audit and they one particular area that is causing them issues. It relates to the gain that we have recognized on the transfer of securities into Sentinel as premium. The value of securities we have transferred in amounted to just over \$40m (as valued by VRC on CLOs and other sources). The problem is that the premium was only \$25m, creating a gain on the transaction. Because there is no return of overpayment of premium, it gives rise to the question "is this an arms-length transaction?" Essentially Sentinel has been overpaid by approximately \$15m. Although there doesn't appear to be anything in GAAP preventing the recording of a gain, it does create a significant amount of questions as well as a ton of additional disclosures in the audit report.

Alternatively, if we could adjust the premium to \$40m, it would resolve the issue on their end. Lisa doesn't see any negatives for increasing premium (no premium tax or income tax position concerns) and I think she may be on to something. I know the pricing study showed \$25m and I can run it by the actuary too, but don't think it will matter to him.

Also, the auditors are wanting further information on how we got to 2 years on the ATE policy term. I don't want to say we pulled it out of the air so am thinking if you could give some general comments on the status of the matter at the time (thinking back to August may be appropriate as circumstances now may be very different) and estimations on when it might settle/resolve, I can add that into a memo to satisfy their inquiry.

Let me know if you have any thoughts on either of these or if we need to discuss further.

Thanks,

Tom

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